A93
10
195

AGRICULTURAL OUTLOOK DIGEST

AOD-195

INPUT UPDATE:

'74 OUTLOOK, p. 1
FERTILIZER, p. 3
TRANSPORTATION, p. 3

Approved by the Outlook and Situation Board, January 28, 1974
Economic Research Service U.S. Department of Agriculture

BIGGER COMMODITY SUPPLIES IN THE OFFING

Recent indications of intended acreage expansion by farmers point the way to some relief from the very tight commodity picture of the past year. Farmers told USDA's January 1 planting intentions survey they plan to put in much more spring wheat, corn, and cotton, and a little less soybeans and rice than a year ago. These tentative figures will be updated by a March intentions survey, and a June survey of the acreage actually planted.

In general, crop yields were down a little during 1973. The following projections of 1974 crops are based on the intended acreage multiplied by average yields allowing for trend—up some from the yields of last year. They also assume farmers will get the inputs they require.

Carryover levels next summer and fall, as well as crop output, must be considered in the total crop supply picture for 1974/75. So tentative projections of carryover levels also figure in the following commodity prospects:

Feed Grains

Farmers may plant 127 million acres of feed grains in 1974, up from 121½ million in 1973. Such plantings would produce around 235 million tons of feed grains, up 30 million tons from 1973.

Carryover of all four feed grains into the 1974 crop year is projected at 27 million tons, the lowest in recent years. But the indicated sharp increase in feed grain production would boost supplies for 1974 crop year to 262 million tons, compared with 238 million on hand in the current crop year.

Corn acreage intentions of 78.8 million acres are up 10 percent, indicating a crop of about 6.7 billion bushels, 18 percent more than last year. This would allow a recovery in the 1974 crop year from a relatively low corn stocks level projected for the end of the current crop year.

Wheat

A slight increase in supplies seems possible for this major food grain. Prospective spring wheat plantings of 19 million acres together with winter wheat acreage of 51 million indicate a 1974 wheat crop of about 2,060 million bushels, up from 1,711 million in 1973.

That's a lot of wheat by any gauge, but a smaller carryover may leave total supplies for the 1974 crop year only 100 million bushels over this season's 2,150 million bushels. Prospective July 1 carryover level has dropped progressively as wheat export movement has strengthened. Right now it looks as though we will export 1,200 million bushels of wheat this season. Carryover may be down to under 180 million bushels next July, least in 26 years.

Continued on page 2.

FARM INPUT SHORTAGES MAY BE LIMITED

Farming may not be subject to any major shortages of farm inputs this year, but supplies of purchased inputs will be very tight and prices generally higher.

Farmers spend about 60 percent of their production outlays on inputs of non-farm origin such as equipment, labor, fuel, and fertilizer. The other 40 cents buys feed, seed, feeder livestock, and other supplies produced on farms. Last year the bill for all farm production expenses took a breathtaking leap to almost $65 billion, one-third more than in 1972. Fortunately, gross incomes gained even more and net farm income took a big stride to over $26 billion.

Most of last year's hike in farm production expenses was a direct reflection of zooming prices of farm-origin inputs. In 1974 those inputs are likely to cost farmers about the same. But rising costs of storebought inputs, especially fuel and fertilizer, will further increase farm production expenses.

As the year began, economists made predictions about the supply and price conditions farmers will encounter when they go shopping for supplies. Here they are, with the warning that the situation affecting these inputs is still fluid, and changing daily:

Continued on page 2.

BIGGER SUPPLIES From page 1.

Rice

On January 1, rice farmers reported intentions to plant 2 percent fewer acres than in 1973 (but still 17 percent more than in 1972). With a small carryover level projected for next July, supplies from this acreage would not be likely to meet the estimated export and domestic demand or allow for an adequate stocks level.

USDA responded on January 24 by raising the national acreage allotment for rice by 27 percent to 2.1 million acres. With this program revision we could harvest nearly 108 million hundredweight (rough rice), resulting in total supplies for the 1974 crop year of 112.6 million hundredweight. Ending stocks at the end of the 1974 crop year could total over 13 million hundredweight, compared with roughly 5 million this crop year and last.

Cotton

Upland cotton acreage may jump over 2 million to an intended planting of 14.5 million acres. Last season, extensive flooding in the Delta caused a cutback in cotton acres. USDA, by law, can't forecast cotton production until August. The indicated August carryover, though, is 3.8 million bales, down slightly from the season before.

Soybeans

The soybean carryover next September is projected at 240 million bushels, well up from 60 million a year before.

Soybean output in 1974 is indicated a shade below the 1,570 million bushels last year. Indicated acreage is down 2 million acres, but yields may improve. Total soybean supplies projected for the 1974 crop year thus could pick up moderately to nearly 1,800 million bushels. Some increase is anticipated for supplies of soybean meal and soybean oil.

INPUT SHORTAGES From page 1.

Fuel. Availability is still a headache, but allocation program will help. Spot shortages have been reported throughout the past year, and are expected to continue.

The recently finalized Mandatory Petroleum Allocation Program, which covers gasoline, diesel, and propane, provides for increased use in 1974. It promises 100 percent of current requirements of gasoline, diesel, and propane needed for production, meaning farmers should be able to get more to grow more. However, in late January the supply of propane available for allocation was growing very short, and farmers in some States were reporting inadequate fuel supplies to USDA.

Diesel fuels in 1974 may be tighter than gasoline because both farmers and industry want to use more. Farm use of diesel has been growing about 7 percent a year over the last decade while farm gasoline consumption has stabilized. Reports indicate that about four-fifths of the new tractors purchased in 1972 and over half the new combines purchased in the first half of 1973 were diesel powered.

Retail prices of gas and electricity in December were 7 percent above a year earlier. But wholesale prices of fuels and related products in December were 73 percent higher than a year earlier.

Pesticides. By using more pesticides, farmers could reduce fieldwork, saving fuel. But it takes more fuel and petroleum-based chemicals to produce more pesticides.

Demands for pesticides will be greater in 1974, both because of the attempt to economize on fuel and the attempt to expand farm output. Even so, the industry is optimistic it can meet most farm needs. Few problems were encountered last year, and most of the raw materials for making pesticides appear to be available. However, there is some concern that the energy situation may result in spotty shortages of intermediate chemicals required in the production of pesticides. The problem of moving pesticides to the right places at the right time may also create spotty shortages and cause some last-minute substitutions. Several industry sources speculate prices may be up around 15 percent over 1973.

Machinery and equipment. After slumping for several years, farm machinery sales came to life in 1972, and dramatic gains continued in 1973. Right now the assembly lines can't deliver enough equipment to meet the demand, so farmers should expect a lag in delivery of their 1974 models. However, the big sales of the past 2 years mean there is enough equipment in the fields to enable farmers to expand farm output.

Labor. The demand for available farmworkers will continue heavy this year. Wage rates, up more than 8 percent in 1973, will keep rising. There may be shortages of workers in Florida for the citrus harvest, in the Northeast and Virginia for apple picking, and in California for fruits and vegetables. Labor disputes heighten California's problems.

The farm labor picture may get help this year from two sources. One might be rising nonfarm unemployment, which showed up late in 1973, reversing a drop in unemployment. Some nonfarm workers may accept farm work rather than draw unemployment payments. The other is a decision by the Department of Labor to continue certifying foreign workers for temporary farm work in labor-short States.

This action has several strings attached. Foreign workers may be certified only for hand harvest work and only when the Labor Department finds a shortage of domestic workers. To employ foreign workers, farmers must pay acceptable wages, possibly as high as $2.25 an hour, to both domestic and foreign employees.

MORE FERTILIZER

Farmers will get more fertilizers in 1974, although they may not obtain all they would like to have. Accordingly, available supplies of nitrogen and phosphorus fertilizers will continue under intensive demand and price pressures. Farmers may shell out $4 billion for fertilizer in 1974, a 40 percent cost increase over last year.

Supply additions will come from several sources in 1973/74. When the Government agreed to lift the lid on fertilizer prices on October 25, a number of companies agreed to make 1½ million additional tons of 5 products scheduled for export available to U.S. farmers between then and next June. Also, the firms agreed to run their plants at top capacity and to expand capacity if possible. Another likely source of added fertilizer this season is imports. We are a net importer of urea and some other nitrogen fertilizers.

Domestic fertilizers prices soon rose to the higher world-market levels. However, international prices have continued rising this winter, prompting the Cost of Living Council to solicit further cooperation of domestic fertilizer companies on future price and supply plans. A check of late January prices showed world prices of diammonium phosphate nearly double the domestic level.

Here's the outlook for the big three nutrients in 1974:

Nitrogen. Availability of nitrogen may be up about 8 percent. One new plant coming on stream late this year will boost net U.S. capacity for anhydrous ammonia output by 2 percent, and imports will be up. A shortage of natural gas for ammonia production is keeping more new plants from being built.

There are some indications that prices of fertilizers with high nitrogen content may be up 50-75 percent this spring from a year earlier. In recent years farmers have been paying $75-$80 per ton of anhydrous ammonia. But by January 21, 1974, the price was up to $176.

Because of its high nitrogen content and dual use both as a fertilizer and as a feed protein substitute, demand may push urea prices to record levels. The previous recorded high was $123 a ton paid by farmers for urea in 1959. The price may average over $150 in 1974, versus $93 in 1973. Ammonium nitrate, ammonium sulfate, and sodium nitrate prices as well as prices for mixed fertilizers made primarily with nitrogen materials may be at their highest levels of record.

Phosphates. If supplies are available, phosphate use may increase 8 percent. Right now the limiting factor is total U.S. capacity. But by the end of the year 5 plants will have been built or expanded, resulting in a sharp rise in capacity. However, phosphate rock supplies are tight and prices well above last year.

Domestic prices of concentrated superphosphate and diammonium phosphate may run about 40 percent over those of last winter and spring. But prices could level or ease later in 1974 when new plant capacity is put into production. Supplies of diammonium phosphate, the feed supplement, will fall short of demand in 1974 because of the heavy demand for phosphoric acid.

Potash. There is plenty of potash, mostly from Canadian mines, but prices are up anyway, and will run about a fifth higher than last spring. Any shortages in farm areas would most likely be due to transportation tieups.

BOOM IN FOREIGN DEMAND

Growing world needs for fertilizer were part of the fertilizer problem in 1973. But there's some evidence that world fertilizer output is catching up and the tight situation could ease.

World demand for nitrogen may push global usage to a record 42.6 million tons in 1973/74, an 8 percent hike over 1972/73. Whether or not supply will reach this level depends on the output of numerous ammonia plants recently completed and soon to be completed abroad.

High analysis phosphate materials will probably continue in tight supply for at least another 6 months. The situation should ease by the latter part of this year, as world capacity is expected to increase about 12 percent and continue to increase into 1975 and 1976.

TRANSPORTATION HANGUPS LIKELY

The farm-product transportation network made it through 1973, although it was limping a little towards the end of the year. In 1974, the limp may become more pronounced.

Last year was a moving one in the transportation industry. Data thus far available indicate total volume gains of 10-20 percent for railroads, barges, and trucks. Part of the increase was in added farm export business. The volume of farm goods moving from farm areas to ports jumped sharply in 1972/73 and a little more in the current fiscal year.

Despite this success, the industry was dealt some blows, and agriculture will feel the repercussions. Supplies of boxcars and hopper cars continue short of needs. Railroads were allowed to stop icing services on September 1, knocking a third of the refrigerated cars out of service. There were shortages of unregulated trucks for carrying produce. Reduction of speed limits to conserve fuel has reduced the capacity of truck carriers. The barge fleet grew last year, but supply is still far short of potential barge demand. Recent barge freight rates have been double to triple those of 1972.

Now what? As farmers produce more the demand for transportation to keep agriculture going will be even greater this year. The fuel shortage and other problems will continue to hamper the ability of the transportation network to meet this need.

Agriculture's needs may not be fully met in 1974, which could result in losses to producers, higher costs to consumers, and headaches for food distributors. Shipping rates will be higher, and prices all along the food marketing chain will reflect the increases.

FARM FINANCE BRIGHT

The financial portfolio of U.S. farmers looks a lot better today than it did just a year ago, and it could maintain much of its strength through 1974.

The income aspect is much better. Farmers pocketed just over $26 billion in realized net farm income last year, compared with 1972's $19.7 billion. Their incomes from nonfarm sources—jobs, rents, and the like—also picked up from the record $15.9 billion of 1972 as the economy underwent a boom and employment increased.

Of course, inflation took its toll of earnings, with prices paid by farmers for family living rising about 11 percent. But even if you deflate net farm income to 1967 purchasing power, farmers made nearly $19 billion in "real" dollars, the best since 1948.

Last year was a big help to the credit rating of the farming sector. Although farmers went about $6 billion deeper in debt, leaving them with $80 billion outstanding on January 1, 1974, their assets rose much more. So farmers could claim an equity of nearly $375 billion on their total physical and financial assets, $65 billion ahead of the 1972 equity amount.

FOREIGN FOCUS

WORLD FARM OUTPUT RECOVERS

World farm production (excluding Communist Asia) rose about 6 percent to a record high in 1973, recovering from the poor harvest of 1972. Improved weather was mainly responsible, and the Asian monsoon was particularly favorable. Production rose notably in the United States, Canada, the USSR, India, Latin America, and Oceania.

World food production rose to a new high also, and per capita output of food equaled the 1971 record. Total food production rose about equally in developed and less developed nations, but less developed countries had less rise in per capita food production because of greater population gains.

World grain prospects for 1973/74 point to record crops. Supplies of grain will be adequate to allow increases in total and per capita disappearance. Rice supplies are the tightest among major commodities, with wheat supplies next in line, and coarse grains in the most relaxed position. However, supplies are likely to remain relatively tight through 1973/74 and well into 1974/75.

The Russian grain crop has recovered from the sharp drop of 1972 which triggered the huge purchases from the United States. Excellent weather in 1973 boosted gross grain output in Russia to a record 222 million tons, about 20 percent over any other year. With an expected surplus of grain over projected consumption, the Russians will rebuild stocks.

World oilmeal production advanced in 1973, along with consumption. Oilmeal users in many nations were bidding for our large export supplies. This year, worldwide oilmeal production may be up sharply, following much larger plantings last fall. Peruvian fishmeal output could exceed last year's poor showing, but would still be well below normal.

World cotton production in 1973/74 exceeded increased world consumption and stocks increased, all in countries other than the United States. Stocks, however, will remain low relative to rising cotton use. World cotton trade in 1973/74 should remain near last year's level.

World production of meat in 1973 showed little gain in total and even declined on a per capita basis. Beef herds have been expanding in the major producing areas, though, and output is expected to rise. A recovery in world pork production is in the works, but the United States will be a major exception.

World poultry meat production increased and per capita production continued its upward trend.

Total milk production in major countries in 1973 about equaled the 1972 volume. We produced less but the European Community produced more. While U.S. output declines further in 1974, other nations will probably turn out a little more milk.

YEAR TO REMEMBER

New data show we exported farm products worth $17.7 billion in calendar year 1973, 90 percent over the 1972 amount. Farm-product exports in the $19 billion range are forecast for fiscal year 1974.

In commodity terms, grain exports, mainly wheat and feed grains, added 60 percent of the 1973 value gain, helped by significant increases in value of soybeans, protein meal, tobacco, cotton, fruits, nuts, vegetables, meats, cattle hides, and poultry meat exported.

Exports advanced strongly to every region in 1973. Western Europe bought $5.6 billion; Eastern Europe and the Soviet Union took $1.5 billion worth. Asia was important: Japan's farm-product purchases topped $3 billion, while those of the People's Republic of China soared to $574 million. And the rest of Asia received $2.9 billion of our farm-product exports last year.